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SUBJECT: SHAHRISTANI: PORTRAIT OF AN OIL MINISTER-IN-WAITING

Classified By: Charge d'Affaires David M. Satterfield for reasons 1.4 (b) and (d)

¶1. (S) Summary: Dr. Husayn Shahristani, under consideration by some in the United Iraqi Coalition (UIC) to become Oil Minister, shared his ideas for the oil sector with EmbOffs on May 1. Key themes included the needs to attract foreign investment, combat oil smuggling/corruption and increase transparency, and amend the constitution to maintain federal control of the oil sector and revenues. Dr. Shahristani said that support from the Supreme Council for the Islamic Revolution in Iraq (SCIRI) for a southern federal region would not interfere with UIC plans to impose exclusive federal central control on oil development law through a constitutional amendment. Dr. Shahristani was reluctant to discuss specific strategies but said he favors implementation of higher fuel prices negotiated under the IMF Stand-By Arrangement. End summary.

GENERAL THOUGHTS ON THE OIL SECTOR

¶2. (S) Dr. Husayn Shahristani, former Deputy Speaker of the Transitional National Assembly (TNA) and one of the chief coalition negotiators for the United Iraqi Coalition (UIC), told EmbOffs on May 1 that he expects final decisions soon on government formation. Noting reports that he is being considered for Minister of Oil, EmbOffs asked for his views on the challenges facing the MoO. Dr. Shahristani declined to discuss specific strategies for the oil sector, adding that a group of experts is studying the issues. However, he mentioned that he is open to ideas from the USG. He commented that urgent issues facing the MoO include increasing distribution of petroleum products to local markets, streamlining processes at refineries to increase efficiencies, curtailing oil product smuggling, and bringing a commitment from all parties to work together. He referred to Iraq's Stand-By Arrangement with the IMF and noted that a strategy needs to be developed so that those who can least afford it are not overburdened by price increases for refined fuel products.

¶3. (S) Regarding structural reform, Dr. Shahristani argued that re-creating the Iraqi National Oil Company (INOC) would be important. He also noted the importance of sufficient security, local partners, and increased technology to increase production beyond pre-war levels. He was not familiar with previous USG, USAID or international reports on how to improve Iraq's oil industry, but he welcomed the USG's ideas in the areas of combating corruption, increasing oil production, and importing oil products.

ATTRACTING FOREIGN INVESTMENT

¶4. (S) Dr. Shahristani highlighted attracting investment

from foreign oil companies as a major task for the MoO in the next four years in order to increase production. He said his aim is to increase production by one or two million barrels a day (BPD) above current levels. He said that Iraq can achieve three million BPD "within a year" and 4-5 million BPD in four years. (Comment: These numbers are very optimistic given the current state of the oil sector. End comment). He agreed, however, that additional oil production will depend on security, local cooperation, and foreign investment. He also highlighted the need to build power stations near existing oil fields to burn associated gas that would otherwise be flared.

¶ 15. (S) Dr. Shahristani acknowledged that, in addition to a lack of security, uncertainty about the Iraqi legal regime is holding back foreign investment in Iraq's oil industry. EmbOff suggested that Iraq consider joining the U.N. Convention on the Recognition and Enforcement of Foreign Arbitral Awards as an important step in this effort, noting that international investors will be more likely to invest if they are assured of a dispute resolution mechanism as well as laws that ensure the repatriation of profits. Dr. Shahristani would not discuss whether he favors awarding new field development opportunities to international companies or reserving this sphere for INOC, adding only that the issue is "under study."

COMBATING OIL SMUGGLING AND INCREASING TRANSPARENCY

¶ 16. (S) When asked about corruption, Dr. Shahristani said it will not be tolerated. He welcomes any help from the Embassy and Washington. He referenced the MoO Inspector General's

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(IG) report on corruption in the MoO and oil sector (septel) and said he plans to work with the Oil Ministry IG. Dr. Shahristani said that "no one will be spared for misuse of funds" in the Oil-for-Food program, adding that any foreign company found guilty of wrongdoing will not be allowed to do further business with Iraq. Pressed to acknowledge that Iraq needs to prosecute Iraqis responsible for bribing ministry officials, Dr. Shahristani was quick to say that such people should be prosecuted, no matter who they are. He sought our advice on what might be done to minimize corruption in the ministry. We pointed out that it is important during a transition to secure important documents in the ministry, not just for government continuity, but also to ensure that evidence of illegal activity is not removed. Dr. Shahristani immediately agreed and responded favorably to our suggestion that an equal concern is the destruction of documents that might provide evidence of criminal wrongdoing. If appointed as Minister, he said he would insist on the criminal investigation of anyone who destroys or removes ministry documents.

¶ 17. (S) Shahristani said he is aware of the problem of the smuggling out of Iraq of refined oil products. He said that the solution is better enforcement at the border and implementation of agreed-upon price increases. The problem with the previous price increases in December 2005, he offered, was that they were not adequately explained to the people. He said the previous government did not have the political will to stop the smuggling but that he would. When the issue of installing meters to measure quantities of crude or products produced and transported was raised (a subject that had been discussed in the cabinet), Shahristani jumped on the point and said that, if he becomes minister, meters will be installed on "Day Two."

¶ 18. (S) Dr. Shahristani asked for USG assistance in rooting out corruption in companies that do business with the MoO. We mentioned that the USG has experts in investigations into such corruption cases and used some of them to investigate corruption in the Oil-for-Food program. We added that these

investigations require painstaking reviews of contracts and other documents to uncover fraud and bribery. Dr. Shahristani then said he recognizes the value of cooperation in investigations of this nature and assured us that, if he were to become the Minister of Oil, he would ensure MoO cooperation with all appropriate Iraqi bodies to investigate allegations of corruption.

¶ 19. (S) Asked about Iraq's plans to increase transparency in the oil sector, Dr. Shahristani agreed with the suggestion that information regarding reserves, production, revenue and contracts should "be absolutely transparent" and added that contracts should be published. He agreed in principle that Iraq should follow the models of other oil-producing democracies with regard to transparency in the industry. Dr. Shahristani referred to the decision reached during government formation talks that all contracts above \$50 million should be approved by the cabinet as a strategy to combat corruption and noted "the time is gone when contracts could be negotiated behind closed doors." There was agreement that responsible international oil companies welcome transparency as being good for business.

INCREASING FEDERAL CONTROL AND PROVINCIAL DIVERSIFICATION

¶ 10. (S) The best place to increase production immediately, Dr. Shahristani claimed, is in the South. When asked how he might diversify Iraq's oil production beyond Basrah and Kirkuk, he commented that Iraq's provincial investment strategies should be tied to the Constitution. Dr. Shahristani noted that Article 111 of the Constitution needs to be revised or amended so that control of the oil sector is kept wholly in the federal government and the MoO, not shared with the governorates and region(s). (Note: Although Dr. Shahristani referred to Article 111, which establishes the principle of public ownership of oil and gas resources, his comments relate to amending the substance of Article 112, government management of oil and gas resources. End note.) He agreed that revenues from oil should be distributed according to population and need but stated that it is important that the governorate and regional governments not have the ability to nullify federal law as it affects the oil industry. (Note: Article 115 of the Constitution gives priority to laws of the regions and governorates in cases of a dispute over a shared power. End note). Dr. Shahristani opined that constitutional changes would take "three to six months to achieve." Regarding economic diversification, he said that some regions of the country should not be developed, due to limited financial resources. He also mentioned Iraq's need for increased refinery capacity in many

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areas.

INTERNAL AND EXTERNAL COOPERATION

¶ 11. (S) Asked about his interest in working with other ministries, Dr. Shahristani noted that he expects the full cooperation of various ministries and does not anticipate any problems "in getting things through." He also added that he plans to have serious talks with neighboring countries on the supply of oil products and stopping smuggling: "We are getting people to work on this," he said, reiterating his view that Iraq's excessive fuel price subsidies are a large part of the problem. He said he welcomes ideas and strategies from the USG.

COMMENT

¶ 12. (S) Dr. Shahristani projected confidence regarding his

chances of being nominated to be Minister of Oil. While his views openly agree with USG interests in increasing transparency, opening up foreign investment opportunities, and combating petroleum products smuggling, we do not yet have a good sense of whether he will deliver. He was not helpful to USG efforts during the past year, particularly in his unwillingness to see through the ratification of the bilateral agreements in the TNA that were signed at the July 2005 Joint Commission on Reconstruction and Economic Development (JCRED). He also failed to push through draft legislation liberalizing fuel imports before the end of the final TNA session in December 2005.

¶13. (S) Dr. Shahristani's assertion of federal control over oil resources needs better definition. His view that a constitutional amendment treating this subject could be effected in 3-6 months glosses over a great deal of political difficulty. Shahristani also displayed an occasional reservation about foreign oil companies in the meeting, but he acknowledges the importance of foreign investment in Iraq's oil industry as the only way for Iraq to reach production levels of 4-5 million BPD in the medium-term. Finally, Dr. Shahristani was circumspect as he frequently referred to "experts" working on implementation plans of the ministry. In his brief comments on corruption, refineries and distribution, he showed little awareness of current policies. That is remediable, but we have concern that the time has passed when someone who is intelligent and honest, but lacks experience either in the industry or in running a large, complex bureaucracy, can be effective in this Ministry. End comment.

SATTERFIELD